

Plan 1 COLA / Gain-sharing

Background

Currently, gain sharing in PERS 1 and TRS 1 occurs on even-numbered years. An extraordinary investment gain occurs when the average rate of return on assets for the previous 4-year period exceeds 10%. When this gain occurs, one-half of the gain for PERS 1 and TRS 1 is used to fund a permanent increase in the PERS 1 and TRS 1 Uniform COLA for current and future retirees.

PERS 1 and TRS 1 members with 25 years of service who have been retired 20 years are eligible for the \$1,000 alternative minimum benefit. The benefit has no automatic escalator and will effectively cease in 2010 when the original minimum benefit will provide a benefit greater than \$1,000 for a retiree with 25 years of service.

The current Uniform COLA provisions require PERS 1 and TRS 1 members to be retired one year and to be at least age 66 on July 1st to be eligible for the COLA.

Committee Activity

Presentation:

December 7, 2004 - Full Committee

Subgroup Activity:

September 7, 2004 - Subgroup Meeting

October 19, 2004 - Subgroup Meeting

November 9, 2004 - Subgroup Meeting

Proposal:

December 7, 2004 - Full Committee

Recommendation to Legislature

Repeal plan 1 gain-sharing and use approximately one-half of the long-term estimated cost to fund the following benefit improvements in PERS 1 and TRS 1:

- Enhance the annual increase amount by 20 cents, raising the July 1, 2005 amount from \$1.25 to \$1.45.
- Establish a \$1,000 alternative minimum benefit for members with 20 years of service who have been retired 25 years.
- Establish a 3% annual escalator for both \$1,000 alternative minimum benefit provisions (existing and proposed).
- Amend Uniform COLA eligibility to include all PERS 1 and TRS 1 retirees who have been retired one year and will have attained age 66 by December 31st of the calendar year in which the increase is given.

Staff Contact

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Select Committee on Pension Policy

Plan 1 COLA / Gain-sharing Purchasing Power Subgroup Proposal

(December 1, 2004)

Proposal

Repeal plan 1 gain-sharing and use approximately one-half of the long-term estimated cost to fund the following benefit improvements in PERS 1 and TRS 1:

- Enhance the annual increase amount by 20 cents, raising the July 1, 2005 amount from \$1.25 to \$1.45.
- Establish a \$1,000 alternative minimum benefit for members with 20 years of service who have been retired 25 years.
- Establish a 3% annual escalator for both \$1,000 alternative minimum benefit provisions (existing and proposed).
- Amend Uniform COLA eligibility to include all PERS 1 and TRS 1 retirees who have been retired one year and will have attained age 66 by December 31st of the calendar year in which the increase is given.

This is an expansion and combination of several options presented during the “Purchasing Power Benefit Options” presentation to the SCPP on August 17, 2004.

Staff

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Members Impacted

As of the 2003 valuation, there were 19,740 active and 54,372 retired PERS 1 members; and 11,175 active and 33,855 retired TRS 1 members.

The 20 cent COLA and the repeal of Plan 1 gain-sharing will impact all 77,254 members of PERS 1 and all 46,677 members of TRS 1. The new eligibility requirements for the \$1,000 minimum will impact 694 PERS 1 members and 461 TRS 1 members, and indexing the \$1,000 will impact an additional 391 PERS 1 members and 338 TRS 1 members. The age 66 COLA will impact half the members in PERS 1 and TRS 1 under age 65.

For a typical member impacted by this bill, the uncertain and irregular adjustment to the Annual Increase Amount provided by gain-sharing is exchanged for a definitely determinable increase. Instead of providing adjustments to the Annual Increase Amount with gain-sharing, the Annual Increase Amount would be increased by 20 cents. A retiree with 25 years of service would get an increase of \$5 per month.

Current Situation

The Annual Increase Amount is multiplied by each retirees' months of service to determine the annual Uniform increase retirees receive when they are COLA eligible. The most recent Annual Increase Amount was \$1.21. The Annual Increase Amount increases each year by at least 3 percent. Gain-sharing is also used to boost the Annual Increase Amount; 38 cents of the current amount is a result of gain-sharing. The Annual Increase Amount is scheduled to increase to \$1.25 on July 1, 2005.

The current \$1,000 alternative minimum benefit was established in 2004. Members with 25 years of service who have been retired 20 years are eligible for this benefit. The benefit has no automatic escalator and, as a result, will effectively cease in 2010 when the original minimum benefit, which increases each year by the Annual Increase Amount, will produce a benefit greater than \$1,000 for a retired member with 25 years of service.

The current Uniform COLA provisions require PERS 1 and TRS 1 members to have been retired one year and to be at least age 66 on July 1st to be eligible for the adjustment paid on July 1st.

Currently, gain sharing in PERS 1 and TRS 1 occurs on even-numbered years. An extraordinary investment gain occurs when the average rate of return on assets for the previous 4-year period exceeds 10%. When this gain occurs, one-half of the gain for PERS 1 and TRS 1 is used to fund a permanent increase in the PERS 1 and TRS 1 Uniform COLA for current and future retirees.

History

The Uniform COLA was established under Chapter 345 laws of 1995.

PERS 1 and TRS 1 gain-sharing was established under Chapter 340 laws of 1998.

The current \$1,000 alternative minimum benefit in PERS 1 and TRS 1 was established under Chapter 84 laws of 2004.

Benefit adequacy, particularly in regards to PERS 1 and TRS 1 inflation protection, was studied by the SCPP in the 2004 interim.

Bills to amend the Uniform COLA age eligibility requirements were introduced in the 2000, 2001, 2003, and 2004 legislative sessions. The most recent bills, HB 2539 and SB 6248, did not move from their respective fiscal committees.

Policy Analysis

The policy implications within this trade-off proposal deal with contractual rights of benefits whose statutory basis includes the “non-contractual right” clause, the nature of the benefits being traded, and the value of a certain benefit compared to an uncertain benefit. An informal advice request from the Attorney General’s Office on these subjects resulted in the following:

1. There isn’t a clear answer whether gain-sharing is a vested, contractual right. It might not be a vested, contractual right because of the reservation clause.
2. If the court believes gain-sharing is a vested, contractual right, it is more likely than not that a court would find that the right has not been substantially impaired because members and beneficiaries were “put on notice” that the legislature may amend or repeal gain-sharing in the future (via the reservation clause).
3. With regard to comparable benefits, if gain-sharing were repealed and replaced by another benefit, courts favor comparable benefits which are similar to the old benefit.
4. Under the context of gain-sharing, it is reasonable to adjust the value of an uncertain and unpredictable benefit when determining the value of a comparable replacement which has little or no uncertainty.

COLA for COLA

This advice frames the proposal by maintaining any benefit trade-off should remain within the retiree COLA/purchasing power arena. Since gain-sharing is used to boost the annual increase amount for calculating retirees’ uniform COLA, any alternative benefit(s) should then be so related. Enhancing the uniform increase amount, expanding the qualification requirements to receive

minimum benefits, indexing those alternative minimum benefits by 3% per year, and lowering the age eligibility requirements for receipt of the Uniform COLA are all related to the protection of retirees' purchasing power, and would thus appear to be appropriate trade-off alternatives.

Certainty for Uncertainty

In addition, by placing a higher value on certainty, an alternate benefit may be less costly. Gain-sharing is a benefit that can be given a long-term expected value, but because of the variability of investment markets, it cannot be given a specific value in the near-term with a high degree of certainty. As a result, for those desiring a benefit with near-term certainty, part of the value of a long-term uncertain benefit may be traded to acquire that certainty.

The Purchasing Power Subgroup proposed to enhance select PERS 1 and TRS 1 COLA provisions by a total amount approximately half the long-term cost of Gain-sharing, thus giving greater value to a certain benefit and lesser value to an uncertain benefit. This can be illustrated in the following contribution rate accounting of the Purchasing Power Subgroup proposal.

Plan 1 Gain-Sharing Trade-off		
% of Pay for Employers		
	PERS 1	TRS 1
Long-term Expected Gain-sharing Cost	0.40%	0.84%
1. 20¢ Increase in Annual Amount	0.18%	0.37%
2. Age 66 COLA Eligibility Changes	0.03%	0.04%
3. \$1,000 Minimum Expanded and Indexed at 3%	0.01%	0.01%
Total of Three Proposals	0.22%	0.42%

As seen in the above tabulation, were gain-sharing to be pre-funded, employer contributions in PERS 1 and TRS 1 would increase 0.40% and 0.84% respectively. However, even if it were pre-funded, retired members would not receive a benefit from gain-sharing in 2005 as distributions occur in even numbered years.

Stakeholder Input

Ed Gonion
Washington State School Retirees Association
See attached correspondence

Bill Draft

See attachment

Fiscal Note

See attachment



**Washington State
School Retirees Association**

4726 Pacific Ave. SE

Lacey, WA 98503-1216

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MEMORANDUM

November 24, 2004

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Office of
The State Actuary

TO: Senator Karen Fraser
Chair, Select Committee on Pension Policy

Committee Members

FROM: Ed Gonion *EG*
Executive Director, Washington State School Retirees' Association

SUBJECT: Gain Sharing and Contribution Rate Deferral

Gain Sharing:

WSSRA is strongly opposed to the elimination of the Gain Sharing component of Washington's Retirement System. Plan 1 retirees depend on Gain Sharing to augment the Uniform Plan 1 COLA, and Plan 3 members depend on Gain Sharing to augment their Defined Contribution account.

Plan 1 and Plan 3 retirees/members only receive 50% of the extra ordinary gains when and if they occur. The pension system retains 50%.

WSSRA could support a REPLACEMENT of Plan 1 Gain Sharing only if the following package of benefits were enacted into law prior to eliminating Gain Sharing:

- Increasing the Annual Increase amount of the Uniform Plan 1 COLA by \$0.25.
- Adjusting eligibility for the Uniform Plan 1 COLA so that all retirees would begin receiving the COLA in July of the calendar year they turn age 66 rather than just those who have a birthday that falls between January and June. (Those who's birthday occurs between July and December must wait almost to age 67 to receive the age 66 COLA.)
- Increasing the \$1,000 "Minimum Benefit" enacted during the 2004 Session (SHB 2538) by 3% each year.

With respect to Plan 3 Gain Sharing, WSSRA believes that it is essential that any package of replacement benefits serve the interests of both current and future retirees.

Contribution Rate Deferral:

Plan 1 employees have continued to pay 6% of their salary into pension funds while the contribution rates paid by state and local government have been reduced over the last several years. Additionally, during the 2003-2005 Biennium, State and local governments have enjoyed a "contribution holiday" from payments to the Plan 1 unfunded liability to spend funds earmarked for pensions on other non-pension priorities. The employer contribution rate is not fair or adequate and creates unnecessary financial risk for the state retirement system and the retirees who depend upon it.

WSSRA is opposed to state and local government's continuing to under-fund the respective pension plans. It is essential that the rates be set at levels recommended by the State Actuary and endorsed earlier this Interim by the Select Committee on Pension Policy.

cc: Matt Smith, State Actuary

1 AN ACT Relating to the annual increase amount, alternate minimum
2 benefits, and age eligibility requirements for receipt of the uniform
3 increase in the public employees' retirement system plan 1 and the
4 teachers' retirement system plan 1; amending RCW 41.32.010, 41.32.4851,
5 41.32.489, 41.40.010, 41.40.010, 41.40.197, and 41.40.1984; repealing
6 RCW 41.31.010, 41.31.020, and 41.31.030; providing an effective date;
7 providing an expiration date; and declaring an emergency.

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

9 **Sec. 1.** RCW 41.32.010 and 2003 c 31 s 1 are each amended to read
10 as follows:

11 As used in this chapter, unless a different meaning is plainly
12 required by the context:

13 (1)(a) "Accumulated contributions" for plan 1 members, means the
14 sum of all regular annuity contributions and, except for the purpose of
15 withdrawal at the time of retirement, any amount paid under RCW
16 41.50.165(2) with regular interest thereon.

17 (b) "Accumulated contributions" for plan 2 members, means the sum
18 of all contributions standing to the credit of a member in the member's

1 individual account, including any amount paid under RCW 41.50.165(2),
2 together with the regular interest thereon.

3 (2) "Actuarial equivalent" means a benefit of equal value when
4 computed upon the basis of such mortality tables and regulations as
5 shall be adopted by the director and regular interest.

6 (3) "Annuity" means the moneys payable per year during life by
7 reason of accumulated contributions of a member.

8 (4) "Member reserve" means the fund in which all of the accumulated
9 contributions of members are held.

10 (5)(a) "Beneficiary" for plan 1 members, means any person in
11 receipt of a retirement allowance or other benefit provided by this
12 chapter.

13 (b) "Beneficiary" for plan 2 and plan 3 members, means any person
14 in receipt of a retirement allowance or other benefit provided by this
15 chapter resulting from service rendered to an employer by another
16 person.

17 (6) "Contract" means any agreement for service and compensation
18 between a member and an employer.

19 (7) "Creditable service" means membership service plus prior
20 service for which credit is allowable. This subsection shall apply
21 only to plan 1 members.

22 (8) "Dependent" means receiving one-half or more of support from a
23 member.

24 (9) "Disability allowance" means monthly payments during
25 disability. This subsection shall apply only to plan 1 members.

26 (10)(a) "Earnable compensation" for plan 1 members, means:

27 (i) All salaries and wages paid by an employer to an employee
28 member of the retirement system for personal services rendered during
29 a fiscal year. In all cases where compensation includes maintenance
30 the employer shall fix the value of that part of the compensation not
31 paid in money.

32 (ii) For an employee member of the retirement system teaching in an
33 extended school year program, two consecutive extended school years, as
34 defined by the employer school district, may be used as the annual
35 period for determining earnable compensation in lieu of the two fiscal
36 years.

37 (iii) "Earnable compensation" for plan 1 members also includes the

1 following actual or imputed payments, which are not paid for personal
2 services:

3 (A) Retroactive payments to an individual by an employer on
4 reinstatement of the employee in a position, or payments by an employer
5 to an individual in lieu of reinstatement in a position which are
6 awarded or granted as the equivalent of the salary or wages which the
7 individual would have earned during a payroll period shall be
8 considered earnable compensation and the individual shall receive the
9 equivalent service credit.

10 (B) If a leave of absence, without pay, is taken by a member for
11 the purpose of serving as a member of the state legislature, and such
12 member has served in the legislature five or more years, the salary
13 which would have been received for the position from which the leave of
14 absence was taken shall be considered as compensation earnable if the
15 employee's contribution thereon is paid by the employee. In addition,
16 where a member has been a member of the state legislature for five or
17 more years, earnable compensation for the member's two highest
18 compensated consecutive years of service shall include a sum not to
19 exceed thirty-six hundred dollars for each of such two consecutive
20 years, regardless of whether or not legislative service was rendered
21 during those two years.

22 (iv) For members employed less than full time under written
23 contract with a school district, or community college district, in an
24 instructional position, for which the member receives service credit of
25 less than one year in all of the years used to determine the earnable
26 compensation used for computing benefits due under RCW 41.32.497,
27 41.32.498, and 41.32.520, the member may elect to have earnable
28 compensation defined as provided in RCW 41.32.345. For the purposes of
29 this subsection, the term "instructional position" means a position in
30 which more than seventy-five percent of the member's time is spent as
31 a classroom instructor (including office hours), a librarian, or a
32 counselor. Earnable compensation shall be so defined only for the
33 purpose of the calculation of retirement benefits and only as necessary
34 to insure that members who receive fractional service credit under RCW
35 41.32.270 receive benefits proportional to those received by members
36 who have received full-time service credit.

37 (v) "Earnable compensation" does not include:

1 (A) Remuneration for unused sick leave authorized under RCW
2 41.04.340, 28A.400.210, or 28A.310.490;

3 (B) Remuneration for unused annual leave in excess of thirty days
4 as authorized by RCW 43.01.044 and 43.01.041.

5 (b) "Earnable compensation" for plan 2 and plan 3 members, means
6 salaries or wages earned by a member during a payroll period for
7 personal services, including overtime payments, and shall include wages
8 and salaries deferred under provisions established pursuant to sections
9 403(b), 414(h), and 457 of the United States Internal Revenue Code, but
10 shall exclude lump sum payments for deferred annual sick leave, unused
11 accumulated vacation, unused accumulated annual leave, or any form of
12 severance pay.

13 "Earnable compensation" for plan 2 and plan 3 members also includes
14 the following actual or imputed payments which, except in the case of
15 (b)(ii)(B) of this subsection, are not paid for personal services:

16 (i) Retroactive payments to an individual by an employer on
17 reinstatement of the employee in a position or payments by an employer
18 to an individual in lieu of reinstatement in a position which are
19 awarded or granted as the equivalent of the salary or wages which the
20 individual would have earned during a payroll period shall be
21 considered earnable compensation, to the extent provided above, and the
22 individual shall receive the equivalent service credit.

23 (ii) In any year in which a member serves in the legislature the
24 member shall have the option of having such member's earnable
25 compensation be the greater of:

26 (A) The earnable compensation the member would have received had
27 such member not served in the legislature; or

28 (B) Such member's actual earnable compensation received for
29 teaching and legislative service combined. Any additional
30 contributions to the retirement system required because compensation
31 earnable under (b)(ii)(A) of this subsection is greater than
32 compensation earnable under (b)(ii)(B) of this subsection shall be paid
33 by the member for both member and employer contributions.

34 (11) "Employer" means the state of Washington, the school district,
35 or any agency of the state of Washington by which the member is paid.

36 (12) "Fiscal year" means a year which begins July 1st and ends June
37 30th of the following year.

1 (13) "Former state fund" means the state retirement fund in
2 operation for teachers under chapter 187, Laws of 1923, as amended.

3 (14) "Local fund" means any of the local retirement funds for
4 teachers operated in any school district in accordance with the
5 provisions of chapter 163, Laws of 1917 as amended.

6 (15) "Member" means any teacher included in the membership of the
7 retirement system. Also, any other employee of the public schools who,
8 on July 1, 1947, had not elected to be exempt from membership and who,
9 prior to that date, had by an authorized payroll deduction, contributed
10 to the member reserve.

11 (16) "Membership service" means service rendered subsequent to the
12 first day of eligibility of a person to membership in the retirement
13 system: PROVIDED, That where a member is employed by two or more
14 employers the individual shall receive no more than one service credit
15 month during any calendar month in which multiple service is rendered.
16 The provisions of this subsection shall apply only to plan 1 members.

17 (17) "Pension" means the moneys payable per year during life from
18 the pension reserve.

19 (18) "Pension reserve" is a fund in which shall be accumulated an
20 actuarial reserve adequate to meet present and future pension
21 liabilities of the system and from which all pension obligations are to
22 be paid.

23 (19) "Prior service" means service rendered prior to the first date
24 of eligibility to membership in the retirement system for which credit
25 is allowable. The provisions of this subsection shall apply only to
26 plan 1 members.

27 (20) "Prior service contributions" means contributions made by a
28 member to secure credit for prior service. The provisions of this
29 subsection shall apply only to plan 1 members.

30 (21) "Public school" means any institution or activity operated by
31 the state of Washington or any instrumentality or political subdivision
32 thereof employing teachers, except the University of Washington and
33 Washington State University.

34 (22) "Regular contributions" means the amounts required to be
35 deducted from the compensation of a member and credited to the member's
36 individual account in the member reserve. This subsection shall apply
37 only to plan 1 members.

1 (23) "Regular interest" means such rate as the director may
2 determine.

3 (24)(a) "Retirement allowance" for plan 1 members, means monthly
4 payments based on the sum of annuity and pension, or any optional
5 benefits payable in lieu thereof.

6 (b) "Retirement allowance" for plan 2 and plan 3 members, means
7 monthly payments to a retiree or beneficiary as provided in this
8 chapter.

9 (25) "Retirement system" means the Washington state teachers'
10 retirement system.

11 (26)(a) "Service" for plan 1 members means the time during which a
12 member has been employed by an employer for compensation.

13 (i) If a member is employed by two or more employers the individual
14 shall receive no more than one service credit month during any calendar
15 month in which multiple service is rendered.

16 (ii) As authorized by RCW 28A.400.300, up to forty-five days of
17 sick leave may be creditable as service solely for the purpose of
18 determining eligibility to retire under RCW 41.32.470.

19 (iii) As authorized in RCW 41.32.065, service earned in an out-of-
20 state retirement system that covers teachers in public schools may be
21 applied solely for the purpose of determining eligibility to retire
22 under RCW 41.32.470.

23 (b) "Service" for plan 2 and plan 3 members, means periods of
24 employment by a member for one or more employers for which earnable
25 compensation is earned subject to the following conditions:

26 (i) A member employed in an eligible position or as a substitute
27 shall receive one service credit month for each month of September
28 through August of the following year if he or she earns earnable
29 compensation for eight hundred ten or more hours during that period and
30 is employed during nine of those months, except that a member may not
31 receive credit for any period prior to the member's employment in an
32 eligible position except as provided in RCW 41.32.812 and 41.50.132;

33 (ii) If a member is employed either in an eligible position or as
34 a substitute teacher for nine months of the twelve month period between
35 September through August of the following year but earns earnable
36 compensation for less than eight hundred ten hours but for at least six
37 hundred thirty hours, he or she will receive one-half of a service
38 credit month for each month of the twelve month period;

(iii) All other members in an eligible position or as a substitute teacher shall receive service credit as follows:

(A) A service credit month is earned in those calendar months where earnable compensation is earned for ninety or more hours;

(B) A half-service credit month is earned in those calendar months where earnable compensation is earned for at least seventy hours but less than ninety hours; and

(C) A quarter-service credit month is earned in those calendar months where earnable compensation is earned for less than seventy hours.

(iv) Any person who is a member of the teachers' retirement system and who is elected or appointed to a state elective position may continue to be a member of the retirement system and continue to receive a service credit month for each of the months in a state elective position by making the required member contributions.

(v) When an individual is employed by two or more employers the individual shall only receive one month's service credit during any calendar month in which multiple service for ninety or more hours is rendered.

(vi) As authorized by RCW 28A.400.300, up to forty-five days of sick leave may be creditable as service solely for the purpose of determining eligibility to retire under RCW 41.32.470. For purposes of plan 2 and plan 3 "forty-five days" as used in RCW 28A.400.300 is equal to two service credit months. Use of less than forty-five days of sick leave is creditable as allowed under this subsection as follows:

(A) Less than eleven days equals one-quarter service credit month;

(B) Eleven or more days but less than twenty-two days equals one-half service credit month;

(C) Twenty-two days equals one service credit month;

(D) More than twenty-two days but less than thirty-three days equals one and one-quarter service credit month;

(E) Thirty-three or more days but less than forty-five days equals one and one-half service credit month.

(vii) As authorized in RCW 41.32.065, service earned in an out-of-state retirement system that covers teachers in public schools may be applied solely for the purpose of determining eligibility to retire under RCW 41.32.470.

(viii) The department shall adopt rules implementing this subsection.

(27) "Service credit year" means an accumulation of months of service credit which is equal to one when divided by twelve.

(28) "Service credit month" means a full service credit month or an accumulation of partial service credit months that are equal to one.

(29) "Teacher" means any person qualified to teach who is engaged by a public school in an instructional, administrative, or supervisory capacity. The term includes state, educational service district, and school district superintendents and their assistants and all employees certificated by the superintendent of public instruction; and in addition thereto any full time school doctor who is employed by a public school and renders service of an instructional or educational nature.

(30) "Average final compensation" for plan 2 and plan 3 members, means the member's average earnable compensation of the highest consecutive sixty service credit months prior to such member's retirement, termination, or death. Periods constituting authorized leaves of absence may not be used in the calculation of average final compensation except under RCW 41.32.810(2).

(31) "Retiree" means any person who has begun accruing a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer while a member.

(32) "Department" means the department of retirement systems created in chapter 41.50 RCW.

(33) "Director" means the director of the department.

(34) "State elective position" means any position held by any person elected or appointed to statewide office or elected or appointed as a member of the legislature.

(35) "State actuary" or "actuary" means the person appointed pursuant to RCW 44.44.010(2).

(36) "Substitute teacher" means:

(a) A teacher who is hired by an employer to work as a temporary teacher, except for teachers who are annual contract employees of an employer and are guaranteed a minimum number of hours; or

(b) Teachers who either (i) work in ineligible positions for more than one employer or (ii) work in an ineligible position or positions together with an eligible position.

1 (37)(a) "Eligible position" for plan 2 members from June 7, 1990,
2 through September 1, 1991, means a position which normally requires two
3 or more uninterrupted months of creditable service during September
4 through August of the following year.

5 (b) "Eligible position" for plan 2 and plan 3 on and after
6 September 1, 1991, means a position that, as defined by the employer,
7 normally requires five or more months of at least seventy hours of
8 earnable compensation during September through August of the following
9 year.

10 (c) For purposes of this chapter an employer shall not define
11 "position" in such a manner that an employee's monthly work for that
12 employer is divided into more than one position.

13 (d) The elected position of the superintendent of public
14 instruction is an eligible position.

15 (38) "Plan 1" means the teachers' retirement system, plan 1
16 providing the benefits and funding provisions covering persons who
17 first became members of the system prior to October 1, 1977.

18 (39) "Plan 2" means the teachers' retirement system, plan 2
19 providing the benefits and funding provisions covering persons who
20 first became members of the system on and after October 1, 1977, and
21 prior to July 1, 1996.

22 (40) "Plan 3" means the teachers' retirement system, plan 3
23 providing the benefits and funding provisions covering persons who
24 first become members of the system on and after July 1, 1996, or who
25 transfer under RCW 41.32.817.

26 (41) "Index" means, for any calendar year, that year's annual
27 average consumer price index, Seattle, Washington area, for urban wage
28 earners and clerical workers, all items compiled by the bureau of labor
29 statistics, United States department of labor.

30 (42) "Index A" means the index for the year prior to the
31 determination of a postretirement adjustment.

32 (43) "Index B" means the index for the year prior to index A.

33 (44) "Index year" means the earliest calendar year in which the
34 index is more than sixty percent of index A.

35 (45) "Adjustment ratio" means the value of index A divided by index
36 B.

37 (46) "Annual increase" means(~~(, initially, fifty-nine)~~) one dollar

1 and forty-five cents per month per year of service which amount shall
2 be increased each July 1st by three percent, rounded to the nearest
3 cent.

4 (47) "Member account" or "member's account" for purposes of plan 3
5 means the sum of the contributions and earnings on behalf of the member
6 in the defined contribution portion of plan 3.

7 (48) "Separation from service or employment" occurs when a person
8 has terminated all employment with an employer.

9 (49) "Employed" or "employee" means a person who is providing
10 services for compensation to an employer, unless the person is free
11 from the employer's direction and control over the performance of work.
12 The department shall adopt rules and interpret this subsection
13 consistent with common law.

14 **Sec. 2.** RCW 41.32.4851 and 2004 c 85 s 1 are each amended to read
15 as follows:

16 (1) No one who becomes a beneficiary after June 30, 1995, shall
17 receive a monthly retirement allowance of less than twenty-four dollars
18 and twenty-two cents times the number of years of service creditable to
19 the person whose service is the basis of such retirement allowance.

20 (2) If the retirement allowance payable was adjusted at the time
21 benefit payments to the beneficiary commenced, the minimum allowance
22 provided in this section shall be adjusted in a manner consistent with
23 that adjustment.

24 (3) Beginning July 1, 1996, the minimum benefit set forth in
25 subsection (1) of this section shall be adjusted annually by the annual
26 increase.

27 (4) Those receiving a temporary disability benefit under RCW
28 41.32.540 shall not be eligible for the benefit provided by this
29 section.

30 (5) Beginning July 1, 2004, the minimum benefit set forth in
31 subsection (1) of this section, prior to adjustments set forth in
32 subsection (2) of this section, for a beneficiary with at least twenty-
33 five years of service and who has been retired at least twenty years
34 shall be one thousand dollars per month(~~(. The minimum benefit in this~~
35 ~~subsection shall not be adjusted by the annual increase provided in~~
36 ~~subsection (3) of this section)) which shall be increased each July 1st
37 by three percent, rounded to the nearest cent.~~

1 (6) Beginning July 1, 2005, the minimum benefit set forth in
2 subsection (1) of this section, prior to adjustments set forth in
3 subsection (2) of this section, for a beneficiary with at least twenty
4 years of service and who has been retired at least twenty-five years
5 shall be one thousand dollars per month which shall be increased each
6 July 1st by three percent, rounded to the nearest cent.

7 **Sec. 3.** RCW 41.32.489 and 1995 c 345 s 2 are each amended to read
8 as follows:

9 (1) Beginning July 1, 1995, and annually thereafter, the retirement
10 allowance of a person meeting the requirements of this section shall be
11 increased by the annual increase amount.

12 (2) The following persons shall be eligible for the benefit
13 provided in subsection (1) of this section:

14 (a) A beneficiary who has received a retirement allowance for at
15 least one year by July 1st in the calendar year in which the annual
16 increase is given and has attained at least age sixty-six by (~~July~~
17 ~~1st~~) December 31st in the calendar year in which the annual increase
18 is given; or

19 (b) A beneficiary whose retirement allowance is lower than the
20 minimum benefit provided under RCW 41.32.4851.

21 (3) The following persons shall also be eligible for the benefit
22 provided in subsection (1) of this section:

23 (a) A beneficiary receiving the minimum benefit on June 30, 1995,
24 under RCW 41.32.485; or

25 (b) A recipient of a survivor benefit on June 30, 1995, which has
26 been increased by RCW 41.32.575.

27 (4) If otherwise eligible, those receiving an annual adjustment
28 under RCW 41.32.530(1)(d) shall be eligible for the annual increase
29 adjustment in addition to the benefit that would have been received
30 absent this section.

31 (5) Those receiving a temporary disability benefit under RCW
32 41.32.540 shall not be eligible for the benefit provided by this
33 section.

34 (6) The legislature reserves the right to amend or repeal this
35 section in the future and no member or beneficiary has a contractual
36 right to receive this postretirement adjustment not granted prior to
37 that time.

1 **Sec. 4.** RCW 41.40.010 and 2003 c 412 s 4 are each amended to read
2 as follows:

3 As used in this chapter, unless a different meaning is plainly
4 required by the context:

5 (1) "Retirement system" means the public employees' retirement
6 system provided for in this chapter.

7 (2) "Department" means the department of retirement systems created
8 in chapter 41.50 RCW.

9 (3) "State treasurer" means the treasurer of the state of
10 Washington.

11 (4)(a) "Employer" for plan 1 members, means every branch,
12 department, agency, commission, board, and office of the state, any
13 political subdivision or association of political subdivisions of the
14 state admitted into the retirement system, and legal entities
15 authorized by RCW 35.63.070 and 36.70.060 or chapter 39.34 RCW; and the
16 term shall also include any labor guild, association, or organization
17 the membership of a local lodge or division of which is comprised of at
18 least forty percent employees of an employer (other than such labor
19 guild, association, or organization) within this chapter. The term may
20 also include any city of the first class that has its own retirement
21 system.

22 (b) "Employer" for plan 2 and plan 3 members, means every branch,
23 department, agency, commission, board, and office of the state, and any
24 political subdivision and municipal corporation of the state admitted
25 into the retirement system, including public agencies created pursuant
26 to RCW 35.63.070, 36.70.060, and 39.34.030; except that after August
27 31, 2000, school districts and educational service districts will no
28 longer be employers for the public employees' retirement system plan 2.

29 (5) "Member" means any employee included in the membership of the
30 retirement system, as provided for in RCW 41.40.023. RCW 41.26.045
31 does not prohibit a person otherwise eligible for membership in the
32 retirement system from establishing such membership effective when he
33 or she first entered an eligible position.

34 (6) "Original member" of this retirement system means:

35 (a) Any person who became a member of the system prior to April 1,
36 1949;

37 (b) Any person who becomes a member through the admission of an

1 employer into the retirement system on and after April 1, 1949, and
2 prior to April 1, 1951;

3 (c) Any person who first becomes a member by securing employment
4 with an employer prior to April 1, 1951, provided the member has
5 rendered at least one or more years of service to any employer prior to
6 October 1, 1947;

7 (d) Any person who first becomes a member through the admission of
8 an employer into the retirement system on or after April 1, 1951,
9 provided, such person has been in the regular employ of the employer
10 for at least six months of the twelve-month period preceding the said
11 admission date;

12 (e) Any member who has restored all contributions that may have
13 been withdrawn as provided by RCW 41.40.150 and who on the effective
14 date of the individual's retirement becomes entitled to be credited
15 with ten years or more of membership service except that the provisions
16 relating to the minimum amount of retirement allowance for the member
17 upon retirement at age seventy as found in RCW 41.40.190(4) shall not
18 apply to the member;

19 (f) Any member who has been a contributor under the system for two
20 or more years and who has restored all contributions that may have been
21 withdrawn as provided by RCW 41.40.150 and who on the effective date of
22 the individual's retirement has rendered five or more years of service
23 for the state or any political subdivision prior to the time of the
24 admission of the employer into the system; except that the provisions
25 relating to the minimum amount of retirement allowance for the member
26 upon retirement at age seventy as found in RCW 41.40.190(4) shall not
27 apply to the member.

28 (7) "New member" means a person who becomes a member on or after
29 April 1, 1949, except as otherwise provided in this section.

30 (8)(a) "Compensation earnable" for plan 1 members, means salaries
31 or wages earned during a payroll period for personal services and where
32 the compensation is not all paid in money, maintenance compensation
33 shall be included upon the basis of the schedules established by the
34 member's employer.

35 (i) "Compensation earnable" for plan 1 members also includes the
36 following actual or imputed payments, which are not paid for personal
37 services:

1 (A) Retroactive payments to an individual by an employer on
2 reinstatement of the employee in a position, or payments by an employer
3 to an individual in lieu of reinstatement in a position which are
4 awarded or granted as the equivalent of the salary or wage which the
5 individual would have earned during a payroll period shall be
6 considered compensation earnable and the individual shall receive the
7 equivalent service credit;

8 (B) If a leave of absence is taken by an individual for the purpose
9 of serving in the state legislature, the salary which would have been
10 received for the position from which the leave of absence was taken,
11 shall be considered as compensation earnable if the employee's
12 contribution is paid by the employee and the employer's contribution is
13 paid by the employer or employee;

14 (C) Assault pay only as authorized by RCW 27.04.100, 72.01.045, and
15 72.09.240;

16 (D) Compensation that a member would have received but for a
17 disability occurring in the line of duty only as authorized by RCW
18 41.40.038;

19 (E) Compensation that a member receives due to participation in the
20 leave sharing program only as authorized by RCW 41.04.650 through
21 41.04.670; and

22 (F) Compensation that a member receives for being in standby
23 status. For the purposes of this section, a member is in standby
24 status when not being paid for time actually worked and the employer
25 requires the member to be prepared to report immediately for work, if
26 the need arises, although the need may not arise.

27 (ii) "Compensation earnable" does not include:

28 (A) Remuneration for unused sick leave authorized under RCW
29 41.04.340, 28A.400.210, or 28A.310.490;

30 (B) Remuneration for unused annual leave in excess of thirty days
31 as authorized by RCW 43.01.044 and 43.01.041.

32 (b) "Compensation earnable" for plan 2 and plan 3 members, means
33 salaries or wages earned by a member during a payroll period for
34 personal services, including overtime payments, and shall include wages
35 and salaries deferred under provisions established pursuant to sections
36 403(b), 414(h), and 457 of the United States Internal Revenue Code, but
37 shall exclude nonmoney maintenance compensation and lump sum or other

1 payments for deferred annual sick leave, unused accumulated vacation,
2 unused accumulated annual leave, or any form of severance pay.

3 "Compensation earnable" for plan 2 and plan 3 members also includes
4 the following actual or imputed payments, which are not paid for
5 personal services:

6 (i) Retroactive payments to an individual by an employer on
7 reinstatement of the employee in a position, or payments by an employer
8 to an individual in lieu of reinstatement in a position which are
9 awarded or granted as the equivalent of the salary or wage which the
10 individual would have earned during a payroll period shall be
11 considered compensation earnable to the extent provided above, and the
12 individual shall receive the equivalent service credit;

13 (ii) In any year in which a member serves in the legislature, the
14 member shall have the option of having such member's compensation
15 earnable be the greater of:

16 (A) The compensation earnable the member would have received had
17 such member not served in the legislature; or

18 (B) Such member's actual compensation earnable received for
19 nonlegislative public employment and legislative service combined. Any
20 additional contributions to the retirement system required because
21 compensation earnable under (b)(ii)(A) of this subsection is greater
22 than compensation earnable under (b)(ii)(B) of this subsection shall be
23 paid by the member for both member and employer contributions;

24 (iii) Assault pay only as authorized by RCW 27.04.100, 72.01.045,
25 and 72.09.240;

26 (iv) Compensation that a member would have received but for a
27 disability occurring in the line of duty only as authorized by RCW
28 41.40.038;

29 (v) Compensation that a member receives due to participation in the
30 leave sharing program only as authorized by RCW 41.04.650 through
31 41.04.670; and

32 (vi) Compensation that a member receives for being in standby
33 status. For the purposes of this section, a member is in standby
34 status when not being paid for time actually worked and the employer
35 requires the member to be prepared to report immediately for work, if
36 the need arises, although the need may not arise.

37 (9)(a) "Service" for plan 1 members, except as provided in RCW
38 41.40.088, means periods of employment in an eligible position or

positions for one or more employers rendered to any employer for which compensation is paid, and includes time spent in office as an elected or appointed official of an employer. Compensation earnable earned in full time work for seventy hours or more in any given calendar month shall constitute one service credit month except as provided in RCW 41.40.088. Compensation earnable earned for less than seventy hours in any calendar month shall constitute one-quarter service credit month of service except as provided in RCW 41.40.088. Only service credit months and one-quarter service credit months shall be counted in the computation of any retirement allowance or other benefit provided for in this chapter. Any fraction of a year of service shall be taken into account in the computation of such retirement allowance or benefits. Time spent in standby status, whether compensated or not, is not service.

(i) Service by a state employee officially assigned by the state on a temporary basis to assist another public agency, shall be considered as service as a state employee: PROVIDED, That service to any other public agency shall not be considered service as a state employee if such service has been used to establish benefits in any other public retirement system.

(ii) An individual shall receive no more than a total of twelve service credit months of service during any calendar year. If an individual is employed in an eligible position by one or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service for seventy or more hours is rendered.

(iii) A school district employee may count up to forty-five days of sick leave as creditable service solely for the purpose of determining eligibility to retire under RCW 41.40.180 as authorized by RCW 28A.400.300. For purposes of plan 1 "forty-five days" as used in RCW 28A.400.300 is equal to two service credit months. Use of less than forty-five days of sick leave is creditable as allowed under this subsection as follows:

(A) Less than twenty-two days equals one-quarter service credit month;

(B) Twenty-two days equals one service credit month;

(C) More than twenty-two days but less than forty-five days equals one and one-quarter service credit month.

(b) "Service" for plan 2 and plan 3 members, means periods of employment by a member in an eligible position or positions for one or more employers for which compensation earnable is paid. Compensation earnable earned for ninety or more hours in any calendar month shall constitute one service credit month except as provided in RCW 41.40.088. Compensation earnable earned for at least seventy hours but less than ninety hours in any calendar month shall constitute one-half service credit month of service. Compensation earnable earned for less than seventy hours in any calendar month shall constitute one-quarter service credit month of service. Time spent in standby status, whether compensated or not, is not service.

Any fraction of a year of service shall be taken into account in the computation of such retirement allowance or benefits.

(i) Service in any state elective position shall be deemed to be full time service, except that persons serving in state elective positions who are members of the Washington school employees' retirement system, teachers' retirement system, or law enforcement officers' and fire fighters' retirement system at the time of election or appointment to such position may elect to continue membership in the Washington school employees' retirement system, teachers' retirement system, or law enforcement officers' and fire fighters' retirement system.

(ii) A member shall receive a total of not more than twelve service credit months of service for such calendar year. If an individual is employed in an eligible position by one or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service for ninety or more hours is rendered.

(iii) Up to forty-five days of sick leave may be creditable as service solely for the purpose of determining eligibility to retire under RCW 41.40.180 as authorized by RCW 28A.400.300. For purposes of plan 2 and plan 3 "forty-five days" as used in RCW 28A.400.300 is equal to two service credit months. Use of less than forty-five days of sick leave is creditable as allowed under this subsection as follows:

(A) Less than eleven days equals one-quarter service credit month;

(B) Eleven or more days but less than twenty-two days equals one-half service credit month;

(C) Twenty-two days equals one service credit month;

1 (D) More than twenty-two days but less than thirty-three days
2 equals one and one-quarter service credit month;

3 (E) Thirty-three or more days but less than forty-five days equals
4 one and one-half service credit month.

5 (10) "Service credit year" means an accumulation of months of
6 service credit which is equal to one when divided by twelve.

7 (11) "Service credit month" means a month or an accumulation of
8 months of service credit which is equal to one.

9 (12) "Prior service" means all service of an original member
10 rendered to any employer prior to October 1, 1947.

11 (13) "Membership service" means:

12 (a) All service rendered, as a member, after October 1, 1947;

13 (b) All service after October 1, 1947, to any employer prior to the
14 time of its admission into the retirement system for which member and
15 employer contributions, plus interest as required by RCW 41.50.125,
16 have been paid under RCW 41.40.056 or 41.40.057;

17 (c) Service not to exceed six consecutive months of probationary
18 service rendered after April 1, 1949, and prior to becoming a member,
19 in the case of any member, upon payment in full by such member of the
20 total amount of the employer's contribution to the retirement fund
21 which would have been required under the law in effect when such
22 probationary service was rendered if the member had been a member
23 during such period, except that the amount of the employer's
24 contribution shall be calculated by the director based on the first
25 month's compensation earnable as a member;

26 (d) Service not to exceed six consecutive months of probationary
27 service, rendered after October 1, 1947, and before April 1, 1949, and
28 prior to becoming a member, in the case of any member, upon payment in
29 full by such member of five percent of such member's salary during said
30 period of probationary service, except that the amount of the
31 employer's contribution shall be calculated by the director based on
32 the first month's compensation earnable as a member.

33 (14)(a) "Beneficiary" for plan 1 members, means any person in
34 receipt of a retirement allowance, pension or other benefit provided by
35 this chapter.

36 (b) "Beneficiary" for plan 2 and plan 3 members, means any person
37 in receipt of a retirement allowance or other benefit provided by this

chapter resulting from service rendered to an employer by another person.

(15) "Regular interest" means such rate as the director may determine.

(16) "Accumulated contributions" means the sum of all contributions standing to the credit of a member in the member's individual account, including any amount paid under RCW 41.50.165(2), together with the regular interest thereon.

(17)(a) "Average final compensation" for plan 1 members, means the annual average of the greatest compensation earnable by a member during any consecutive two year period of service credit months for which service credit is allowed; or if the member has less than two years of service credit months then the annual average compensation earnable during the total years of service for which service credit is allowed.

(b) "Average final compensation" for plan 2 and plan 3 members, means the member's average compensation earnable of the highest consecutive sixty months of service credit months prior to such member's retirement, termination, or death. Periods constituting authorized leaves of absence may not be used in the calculation of average final compensation except under RCW 41.40.710(2).

(18) "Final compensation" means the annual rate of compensation earnable by a member at the time of termination of employment.

(19) "Annuity" means payments for life derived from accumulated contributions of a member. All annuities shall be paid in monthly installments.

(20) "Pension" means payments for life derived from contributions made by the employer. All pensions shall be paid in monthly installments.

(21) "Retirement allowance" means the sum of the annuity and the pension.

(22) "Employee" or "employed" means a person who is providing services for compensation to an employer, unless the person is free from the employer's direction and control over the performance of work. The department shall adopt rules and interpret this subsection consistent with common law.

(23) "Actuarial equivalent" means a benefit of equal value when computed upon the basis of such mortality and other tables as may be adopted by the director.

1 (24) "Retirement" means withdrawal from active service with a
2 retirement allowance as provided by this chapter.

3 (25) "Eligible position" means:

4 (a) Any position that, as defined by the employer, normally
5 requires five or more months of service a year for which regular
6 compensation for at least seventy hours is earned by the occupant
7 thereof. For purposes of this chapter an employer shall not define
8 "position" in such a manner that an employee's monthly work for that
9 employer is divided into more than one position;

10 (b) Any position occupied by an elected official or person
11 appointed directly by the governor, or appointed by the chief justice
12 of the supreme court under RCW 2.04.240(2) or 2.06.150(2), for which
13 compensation is paid.

14 (26) "Ineligible position" means any position which does not
15 conform with the requirements set forth in subsection (25) of this
16 section.

17 (27) "Leave of absence" means the period of time a member is
18 authorized by the employer to be absent from service without being
19 separated from membership.

20 (28) "Totally incapacitated for duty" means total inability to
21 perform the duties of a member's employment or office or any other work
22 for which the member is qualified by training or experience.

23 (29) "Retiree" means any person who has begun accruing a retirement
24 allowance or other benefit provided by this chapter resulting from
25 service rendered to an employer while a member.

26 (30) "Director" means the director of the department.

27 (31) "State elective position" means any position held by any
28 person elected or appointed to statewide office or elected or appointed
29 as a member of the legislature.

30 (32) "State actuary" or "actuary" means the person appointed
31 pursuant to RCW 44.44.010(2).

32 (33) "Plan 1" means the public employees' retirement system, plan
33 1 providing the benefits and funding provisions covering persons who
34 first became members of the system prior to October 1, 1977.

35 (34) "Plan 2" means the public employees' retirement system, plan
36 2 providing the benefits and funding provisions covering persons who
37 first became members of the system on and after October 1, 1977, and
38 are not included in plan 3.

(35) "Plan 3" means the public employees' retirement system, plan 3 providing the benefits and funding provisions covering persons who:

(a) First become a member on or after:

(i) March 1, 2002, and are employed by a state agency or institute of higher education and who did not choose to enter plan 2; or

(ii) September 1, 2002, and are employed by other than a state agency or institute of higher education and who did not choose to enter plan 2; or

(b) Transferred to plan 3 under RCW 41.40.795.

(36) "Index" means, for any calendar year, that year's annual average consumer price index, Seattle, Washington area, for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.

(37) "Index A" means the index for the year prior to the determination of a postretirement adjustment.

(38) "Index B" means the index for the year prior to index A.

(39) "Index year" means the earliest calendar year in which the index is more than sixty percent of index A.

(40) "Adjustment ratio" means the value of index A divided by index B.

(41) "Annual increase" means(~~(, initially, fifty-nine)~~) one dollar and forty-five cents per month per year of service which amount shall be increased each July 1st by three percent, rounded to the nearest cent.

(42) "Separation from service" occurs when a person has terminated all employment with an employer. Separation from service or employment does not occur, and if claimed by an employer or employee may be a violation of RCW 41.40.055, when an employee and employer have a written or oral agreement to resume employment with the same employer following termination.

(43) "Member account" or "member's account" for purposes of plan 3 means the sum of the contributions and earnings on behalf of the member in the defined contribution portion of plan 3.

Sec. 5. RCW 41.40.010 and 2004 c 242 s 53 are each amended to read as follows:

As used in this chapter, unless a different meaning is plainly required by the context:

1 (1) "Retirement system" means the public employees' retirement
2 system provided for in this chapter.

3 (2) "Department" means the department of retirement systems created
4 in chapter 41.50 RCW.

5 (3) "State treasurer" means the treasurer of the state of
6 Washington.

7 (4)(a) "Employer" for plan 1 members, means every branch,
8 department, agency, commission, board, and office of the state, any
9 political subdivision or association of political subdivisions of the
10 state admitted into the retirement system, and legal entities
11 authorized by RCW 35.63.070 and 36.70.060 or chapter 39.34 RCW; and the
12 term shall also include any labor guild, association, or organization
13 the membership of a local lodge or division of which is comprised of at
14 least forty percent employees of an employer (other than such labor
15 guild, association, or organization) within this chapter. The term may
16 also include any city of the first class that has its own retirement
17 system.

18 (b) "Employer" for plan 2 and plan 3 members, means every branch,
19 department, agency, commission, board, and office of the state, and any
20 political subdivision and municipal corporation of the state admitted
21 into the retirement system, including public agencies created pursuant
22 to RCW 35.63.070, 36.70.060, and 39.34.030; except that after August
23 31, 2000, school districts and educational service districts will no
24 longer be employers for the public employees' retirement system plan 2.

25 (5) "Member" means any employee included in the membership of the
26 retirement system, as provided for in RCW 41.40.023. RCW 41.26.045
27 does not prohibit a person otherwise eligible for membership in the
28 retirement system from establishing such membership effective when he
29 or she first entered an eligible position.

30 (6) "Original member" of this retirement system means:

31 (a) Any person who became a member of the system prior to April 1,
32 1949;

33 (b) Any person who becomes a member through the admission of an
34 employer into the retirement system on and after April 1, 1949, and
35 prior to April 1, 1951;

36 (c) Any person who first becomes a member by securing employment
37 with an employer prior to April 1, 1951, provided the member has

1 rendered at least one or more years of service to any employer prior to
2 October 1, 1947;

3 (d) Any person who first becomes a member through the admission of
4 an employer into the retirement system on or after April 1, 1951,
5 provided, such person has been in the regular employ of the employer
6 for at least six months of the twelve-month period preceding the said
7 admission date;

8 (e) Any member who has restored all contributions that may have
9 been withdrawn as provided by RCW 41.40.150 and who on the effective
10 date of the individual's retirement becomes entitled to be credited
11 with ten years or more of membership service except that the provisions
12 relating to the minimum amount of retirement allowance for the member
13 upon retirement at age seventy as found in RCW 41.40.190(4) shall not
14 apply to the member;

15 (f) Any member who has been a contributor under the system for two
16 or more years and who has restored all contributions that may have been
17 withdrawn as provided by RCW 41.40.150 and who on the effective date of
18 the individual's retirement has rendered five or more years of service
19 for the state or any political subdivision prior to the time of the
20 admission of the employer into the system; except that the provisions
21 relating to the minimum amount of retirement allowance for the member
22 upon retirement at age seventy as found in RCW 41.40.190(4) shall not
23 apply to the member.

24 (7) "New member" means a person who becomes a member on or after
25 April 1, 1949, except as otherwise provided in this section.

26 (8)(a) "Compensation earnable" for plan 1 members, means salaries
27 or wages earned during a payroll period for personal services and where
28 the compensation is not all paid in money, maintenance compensation
29 shall be included upon the basis of the schedules established by the
30 member's employer.

31 (i) "Compensation earnable" for plan 1 members also includes the
32 following actual or imputed payments, which are not paid for personal
33 services:

34 (A) Retroactive payments to an individual by an employer on
35 reinstatement of the employee in a position, or payments by an employer
36 to an individual in lieu of reinstatement in a position which are
37 awarded or granted as the equivalent of the salary or wage which the

1 individual would have earned during a payroll period shall be
2 considered compensation earnable and the individual shall receive the
3 equivalent service credit;

4 (B) If a leave of absence is taken by an individual for the purpose
5 of serving in the state legislature, the salary which would have been
6 received for the position from which the leave of absence was taken,
7 shall be considered as compensation earnable if the employee's
8 contribution is paid by the employee and the employer's contribution is
9 paid by the employer or employee;

10 (C) Assault pay only as authorized by RCW 27.04.100, 72.01.045, and
11 72.09.240;

12 (D) Compensation that a member would have received but for a
13 disability occurring in the line of duty only as authorized by RCW
14 41.40.038;

15 (E) Compensation that a member receives due to participation in the
16 leave sharing program only as authorized by RCW 41.04.650 through
17 41.04.670; and

18 (F) Compensation that a member receives for being in standby
19 status. For the purposes of this section, a member is in standby
20 status when not being paid for time actually worked and the employer
21 requires the member to be prepared to report immediately for work, if
22 the need arises, although the need may not arise.

23 (ii) "Compensation earnable" does not include:

24 (A) Remuneration for unused sick leave authorized under RCW
25 41.04.340, 28A.400.210, or 28A.310.490;

26 (B) Remuneration for unused annual leave in excess of thirty days
27 as authorized by RCW 43.01.044 and 43.01.041.

28 (b) "Compensation earnable" for plan 2 and plan 3 members, means
29 salaries or wages earned by a member during a payroll period for
30 personal services, including overtime payments, and shall include wages
31 and salaries deferred under provisions established pursuant to sections
32 403(b), 414(h), and 457 of the United States Internal Revenue Code, but
33 shall exclude nonmoney maintenance compensation and lump sum or other
34 payments for deferred annual sick leave, unused accumulated vacation,
35 unused accumulated annual leave, or any form of severance pay.

36 "Compensation earnable" for plan 2 and plan 3 members also includes
37 the following actual or imputed payments, which are not paid for
38 personal services:

1 (i) Retroactive payments to an individual by an employer on
2 reinstatement of the employee in a position, or payments by an employer
3 to an individual in lieu of reinstatement in a position which are
4 awarded or granted as the equivalent of the salary or wage which the
5 individual would have earned during a payroll period shall be
6 considered compensation earnable to the extent provided above, and the
7 individual shall receive the equivalent service credit;

8 (ii) In any year in which a member serves in the legislature, the
9 member shall have the option of having such member's compensation
10 earnable be the greater of:

11 (A) The compensation earnable the member would have received had
12 such member not served in the legislature; or

13 (B) Such member's actual compensation earnable received for
14 nonlegislative public employment and legislative service combined. Any
15 additional contributions to the retirement system required because
16 compensation earnable under (b)(ii)(A) of this subsection is greater
17 than compensation earnable under (b)(ii)(B) of this subsection shall be
18 paid by the member for both member and employer contributions;

19 (iii) Assault pay only as authorized by RCW 27.04.100, 72.01.045,
20 and 72.09.240;

21 (iv) Compensation that a member would have received but for a
22 disability occurring in the line of duty only as authorized by RCW
23 41.40.038;

24 (v) Compensation that a member receives due to participation in the
25 leave sharing program only as authorized by RCW 41.04.650 through
26 41.04.670; and

27 (vi) Compensation that a member receives for being in standby
28 status. For the purposes of this section, a member is in standby
29 status when not being paid for time actually worked and the employer
30 requires the member to be prepared to report immediately for work, if
31 the need arises, although the need may not arise.

32 (9)(a) "Service" for plan 1 members, except as provided in RCW
33 41.40.088, means periods of employment in an eligible position or
34 positions for one or more employers rendered to any employer for which
35 compensation is paid, and includes time spent in office as an elected
36 or appointed official of an employer. Compensation earnable earned in
37 full time work for seventy hours or more in any given calendar month
38 shall constitute one service credit month except as provided in RCW

1 41.40.088. Compensation earnable earned for less than seventy hours in
2 any calendar month shall constitute one-quarter service credit month of
3 service except as provided in RCW 41.40.088. Only service credit
4 months and one-quarter service credit months shall be counted in the
5 computation of any retirement allowance or other benefit provided for
6 in this chapter. Any fraction of a year of service shall be taken into
7 account in the computation of such retirement allowance or benefits.
8 Time spent in standby status, whether compensated or not, is not
9 service.

10 (i) Service by a state employee officially assigned by the state on
11 a temporary basis to assist another public agency, shall be considered
12 as service as a state employee: PROVIDED, That service to any other
13 public agency shall not be considered service as a state employee if
14 such service has been used to establish benefits in any other public
15 retirement system.

16 (ii) An individual shall receive no more than a total of twelve
17 service credit months of service during any calendar year. If an
18 individual is employed in an eligible position by one or more employers
19 the individual shall receive no more than one service credit month
20 during any calendar month in which multiple service for seventy or more
21 hours is rendered.

22 (iii) A school district employee may count up to forty-five days of
23 sick leave as creditable service solely for the purpose of determining
24 eligibility to retire under RCW 41.40.180 as authorized by RCW
25 28A.400.300. For purposes of plan 1 "forty-five days" as used in RCW
26 28A.400.300 is equal to two service credit months. Use of less than
27 forty-five days of sick leave is creditable as allowed under this
28 subsection as follows:

29 (A) Less than twenty-two days equals one-quarter service credit
30 month;

31 (B) Twenty-two days equals one service credit month;

32 (C) More than twenty-two days but less than forty-five days equals
33 one and one-quarter service credit month.

34 (b) "Service" for plan 2 and plan 3 members, means periods of
35 employment by a member in an eligible position or positions for one or
36 more employers for which compensation earnable is paid. Compensation
37 earnable earned for ninety or more hours in any calendar month shall
38 constitute one service credit month except as provided in RCW

1 41.40.088. Compensation earnable earned for at least seventy hours but
2 less than ninety hours in any calendar month shall constitute one-half
3 service credit month of service. Compensation earnable earned for less
4 than seventy hours in any calendar month shall constitute one-quarter
5 service credit month of service. Time spent in standby status, whether
6 compensated or not, is not service.

7 Any fraction of a year of service shall be taken into account in
8 the computation of such retirement allowance or benefits.

9 (i) Service in any state elective position shall be deemed to be
10 full time service, except that persons serving in state elective
11 positions who are members of the Washington school employees'
12 retirement system, teachers' retirement system, public safety
13 employees' retirement system, or law enforcement officers' and fire
14 fighters' retirement system at the time of election or appointment to
15 such position may elect to continue membership in the Washington school
16 employees' retirement system, teachers' retirement system, public
17 safety employees' retirement system, or law enforcement officers' and
18 fire fighters' retirement system.

19 (ii) A member shall receive a total of not more than twelve service
20 credit months of service for such calendar year. If an individual is
21 employed in an eligible position by one or more employers the
22 individual shall receive no more than one service credit month during
23 any calendar month in which multiple service for ninety or more hours
24 is rendered.

25 (iii) Up to forty-five days of sick leave may be creditable as
26 service solely for the purpose of determining eligibility to retire
27 under RCW 41.40.180 as authorized by RCW 28A.400.300. For purposes of
28 plan 2 and plan 3 "forty-five days" as used in RCW 28A.400.300 is equal
29 to two service credit months. Use of less than forty-five days of sick
30 leave is creditable as allowed under this subsection as follows:

31 (A) Less than eleven days equals one-quarter service credit month;

32 (B) Eleven or more days but less than twenty-two days equals one-
33 half service credit month;

34 (C) Twenty-two days equals one service credit month;

35 (D) More than twenty-two days but less than thirty-three days
36 equals one and one-quarter service credit month;

37 (E) Thirty-three or more days but less than forty-five days equals
38 one and one-half service credit month.

1 (10) "Service credit year" means an accumulation of months of
2 service credit which is equal to one when divided by twelve.

3 (11) "Service credit month" means a month or an accumulation of
4 months of service credit which is equal to one.

5 (12) "Prior service" means all service of an original member
6 rendered to any employer prior to October 1, 1947.

7 (13) "Membership service" means:

8 (a) All service rendered, as a member, after October 1, 1947;

9 (b) All service after October 1, 1947, to any employer prior to the
10 time of its admission into the retirement system for which member and
11 employer contributions, plus interest as required by RCW 41.50.125,
12 have been paid under RCW 41.40.056 or 41.40.057;

13 (c) Service not to exceed six consecutive months of probationary
14 service rendered after April 1, 1949, and prior to becoming a member,
15 in the case of any member, upon payment in full by such member of the
16 total amount of the employer's contribution to the retirement fund
17 which would have been required under the law in effect when such
18 probationary service was rendered if the member had been a member
19 during such period, except that the amount of the employer's
20 contribution shall be calculated by the director based on the first
21 month's compensation earnable as a member;

22 (d) Service not to exceed six consecutive months of probationary
23 service, rendered after October 1, 1947, and before April 1, 1949, and
24 prior to becoming a member, in the case of any member, upon payment in
25 full by such member of five percent of such member's salary during said
26 period of probationary service, except that the amount of the
27 employer's contribution shall be calculated by the director based on
28 the first month's compensation earnable as a member.

29 (14)(a) "Beneficiary" for plan 1 members, means any person in
30 receipt of a retirement allowance, pension or other benefit provided by
31 this chapter.

32 (b) "Beneficiary" for plan 2 and plan 3 members, means any person
33 in receipt of a retirement allowance or other benefit provided by this
34 chapter resulting from service rendered to an employer by another
35 person.

36 (15) "Regular interest" means such rate as the director may
37 determine.

1 (16) "Accumulated contributions" means the sum of all contributions
2 standing to the credit of a member in the member's individual account,
3 including any amount paid under RCW 41.50.165(2), together with the
4 regular interest thereon.

5 (17)(a) "Average final compensation" for plan 1 members, means the
6 annual average of the greatest compensation earnable by a member during
7 any consecutive two year period of service credit months for which
8 service credit is allowed; or if the member has less than two years of
9 service credit months then the annual average compensation earnable
10 during the total years of service for which service credit is allowed.

11 (b) "Average final compensation" for plan 2 and plan 3 members,
12 means the member's average compensation earnable of the highest
13 consecutive sixty months of service credit months prior to such
14 member's retirement, termination, or death. Periods constituting
15 authorized leaves of absence may not be used in the calculation of
16 average final compensation except under RCW 41.40.710(2).

17 (18) "Final compensation" means the annual rate of compensation
18 earnable by a member at the time of termination of employment.

19 (19) "Annuity" means payments for life derived from accumulated
20 contributions of a member. All annuities shall be paid in monthly
21 installments.

22 (20) "Pension" means payments for life derived from contributions
23 made by the employer. All pensions shall be paid in monthly
24 installments.

25 (21) "Retirement allowance" means the sum of the annuity and the
26 pension.

27 (22) "Employee" or "employed" means a person who is providing
28 services for compensation to an employer, unless the person is free
29 from the employer's direction and control over the performance of work.
30 The department shall adopt rules and interpret this subsection
31 consistent with common law.

32 (23) "Actuarial equivalent" means a benefit of equal value when
33 computed upon the basis of such mortality and other tables as may be
34 adopted by the director.

35 (24) "Retirement" means withdrawal from active service with a
36 retirement allowance as provided by this chapter.

37 (25) "Eligible position" means:

1 (a) Any position that, as defined by the employer, normally
2 requires five or more months of service a year for which regular
3 compensation for at least seventy hours is earned by the occupant
4 thereof. For purposes of this chapter an employer shall not define
5 "position" in such a manner that an employee's monthly work for that
6 employer is divided into more than one position;

7 (b) Any position occupied by an elected official or person
8 appointed directly by the governor, or appointed by the chief justice
9 of the supreme court under RCW 2.04.240(2) or 2.06.150(2), for which
10 compensation is paid.

11 (26) "Ineligible position" means any position which does not
12 conform with the requirements set forth in subsection (25) of this
13 section.

14 (27) "Leave of absence" means the period of time a member is
15 authorized by the employer to be absent from service without being
16 separated from membership.

17 (28) "Totally incapacitated for duty" means total inability to
18 perform the duties of a member's employment or office or any other work
19 for which the member is qualified by training or experience.

20 (29) "Retiree" means any person who has begun accruing a retirement
21 allowance or other benefit provided by this chapter resulting from
22 service rendered to an employer while a member.

23 (30) "Director" means the director of the department.

24 (31) "State elective position" means any position held by any
25 person elected or appointed to statewide office or elected or appointed
26 as a member of the legislature.

27 (32) "State actuary" or "actuary" means the person appointed
28 pursuant to RCW 44.44.010(2).

29 (33) "Plan 1" means the public employees' retirement system, plan
30 1 providing the benefits and funding provisions covering persons who
31 first became members of the system prior to October 1, 1977.

32 (34) "Plan 2" means the public employees' retirement system, plan
33 2 providing the benefits and funding provisions covering persons who
34 first became members of the system on and after October 1, 1977, and
35 are not included in plan 3.

36 (35) "Plan 3" means the public employees' retirement system, plan
37 3 providing the benefits and funding provisions covering persons who:

38 (a) First become a member on or after:

(i) March 1, 2002, and are employed by a state agency or institute of higher education and who did not choose to enter plan 2; or

(ii) September 1, 2002, and are employed by other than a state agency or institute of higher education and who did not choose to enter plan 2; or

(b) Transferred to plan 3 under RCW 41.40.795.

(36) "Index" means, for any calendar year, that year's annual average consumer price index, Seattle, Washington area, for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.

(37) "Index A" means the index for the year prior to the determination of a postretirement adjustment.

(38) "Index B" means the index for the year prior to index A.

(39) "Index year" means the earliest calendar year in which the index is more than sixty percent of index A.

(40) "Adjustment ratio" means the value of index A divided by index B.

(41) "Annual increase" means(~~(, initially, fifty-nine)~~) one dollar and forty-five cents per month per year of service which amount shall be increased each July 1st by three percent, rounded to the nearest cent.

(42) "Separation from service" occurs when a person has terminated all employment with an employer. Separation from service or employment does not occur, and if claimed by an employer or employee may be a violation of RCW 41.40.055, when an employee and employer have a written or oral agreement to resume employment with the same employer following termination.

(43) "Member account" or "member's account" for purposes of plan 3 means the sum of the contributions and earnings on behalf of the member in the defined contribution portion of plan 3.

Sec. 6. RCW 41.40.197 and 1995 c 345 s 5 are each amended to read as follows:

(1) Beginning July 1, 1995, and annually thereafter, the retirement allowance of a person meeting the requirements of this section shall be increased by the annual increase amount.

(2) The following persons shall be eligible for the benefit provided in subsection (1) of this section:

1 (a) A beneficiary who has received a retirement allowance for at
2 least one year by July 1st in the calendar year in which the annual
3 increase is given and has attained at least age sixty-six by (~~July~~
4 ~~1st~~) December 31st in the calendar year in which the annual increase
5 is given; or

6 (b) A beneficiary whose retirement allowance is lower than the
7 minimum benefit provided under RCW 41.40.1984.

8 (3) The following persons shall also be eligible for the benefit
9 provided in subsection (1) of this section:

10 (a) A beneficiary receiving the minimum benefit on June 30, 1995,
11 under RCW 41.40.198; or

12 (b) A recipient of a survivor benefit on June 30, 1995, which has
13 been increased by RCW 41.40.325.

14 (4) If otherwise eligible, those receiving an annual adjustment
15 under RCW 41.40.188(1)(c) shall be eligible for the annual increase
16 adjustment in addition to the benefit that would have been received
17 absent this section.

18 (5) Those receiving a benefit under RCW 41.40.220(1), or a survivor
19 of a disabled member under RCW 41.44.170(5) shall be eligible for the
20 benefit provided by this section.

21 (6) The legislature reserves the right to amend or repeal this
22 section in the future and no member or beneficiary has a contractual
23 right to receive this postretirement adjustment not granted prior to
24 that time.

25 **Sec. 7.** RCW 41.40.1984 and 2004 c 85 s 2 are each amended to read
26 as follows:

27 (1) Except as provided in subsections (4) and (5) of this section,
28 no one who becomes a beneficiary after June 30, 1995, shall receive a
29 monthly retirement allowance of less than twenty-four dollars and
30 twenty-two cents times the number of years of service creditable to the
31 person whose service is the basis of such retirement allowance.

32 (2) Where the retirement allowance payable was adjusted at the time
33 benefit payments to the beneficiary commenced, the minimum allowance
34 provided in this section shall be adjusted in a manner consistent with
35 that adjustment.

36 (3) Beginning July 1, 1996, the minimum benefit set forth in

subsection (1) of this section shall be adjusted annually by the annual increase.

(4) Those receiving a benefit under RCW 41.40.220(1) or under RCW 41.44.170 (3) and (5) shall not be eligible for the benefit provided by this section.

(5) For persons who served as elected officials and whose accumulated employee contributions and credited interest was less than seven hundred fifty dollars at the time of retirement, the minimum benefit under subsection (1) of this section shall be ten dollars per month per each year of creditable service.

(6) Beginning July 1, 2004, the minimum benefit set forth in subsection (1) of this section, prior to adjustments set forth in subsection (2) of this section, for a beneficiary with at least twenty-five years of service and who has been retired at least twenty years shall be one thousand dollars per month(~~((. The minimum benefit in this subsection shall not be adjusted by the annual increase provided in subsection (3) of this section))~~) which shall be increased each July 1st by three percent, rounded to the nearest cent.

(7) Beginning July 1, 2005, the minimum benefit set forth in subsection (1) of this section, prior to adjustments set forth in subsection (2) of this section, for a beneficiary with at least twenty years of service and who has been retired at least twenty-five years shall be one thousand dollars per month which shall be increased each July 1st by three percent, rounded to the nearest cent.

NEW SECTION. **Sec. 8.** The following acts or parts of acts are each repealed:

(1) RCW 41.31.010 (Annual pension increases--Increased by gain-sharing increase amount) and 1998 c 340 s 1;

(2) RCW 41.31.020 (Gain-sharing increase amount calculated) and 1998 c 340 s 2; and

(3) RCW 41.31.030 (Contractual right to increase not granted) and 1998 c 340 s 3.

NEW SECTION. **Sec. 9.** Sections 1 through 4 and 6 through 8 of this act are necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and take effect immediately.

1 NEW SECTION. **Sec. 10.** Section 4 of this act expires July 1, 2006.

2 NEW SECTION. **Sec. 11.** Section 5 of this act takes effect July 1,
3 2006.

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FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:

CODE:

DATE:

BILL NUMBER:

Office of the State Actuary

035

12/01/2004

Z-0235.1/Z-0246.1

SUMMARY OF BILL:

This bill impacts the Public Employee's Retirement System plan 1 (PERS 1) and the Teachers Retirement System plan 1 (TRS 1) by:

- Enhancing the annual increase amount by 20 cents. This would raise the July 1, 2005 amount from \$1.25 to \$1.45.
- Establishing a \$1,000 alternative minimum benefit for members with 20 years of service who have been retired 25 years.
- Establishing a 3% annual escalator for both \$1,000 alternative minimum benefit provisions.
- Amending Uniform COLA eligibility requirements to include all retirees who have been retired one year and will have attained age 66 by December 31st of the calendar year in which the increase is given.
- Repealing plan 1 gain-sharing.

Effective Date: Immediately upon passage

CURRENT SITUATION:

The Annual Increase Amount is multiplied by each retirees' months of service to determine the annual uniform increase retirees receive when they are COLA eligible. The most recent Annual Increase Amount was \$1.21. The Annual Increase Amount increases each year by at least 3 percent. Gain-sharing is also used to boost the Annual Increase Amount; 38 cents of the current amount is a result of gain-sharing. The Annual Increase Amount is scheduled to increase to \$1.25 on July 1, 2005.

The current \$1,000 alternative minimum benefit was established in 2004. PERS 1 and TRS 1 members with 25 years of service who have been retired 20 years are eligible for this benefit. The benefit has no automatic escalator and, as a result, will effectively cease in 2010 when the original minimum benefit, which increases each year by the Annual Increase Amount, will produce a benefit greater than \$1,000 for a retired member with 25 years of service.

The current Uniform COLA provisions require PERS 1 and TRS 1 members to have been retired one year and to be at least age 66 on July 1st to be eligible for the adjustment paid on July 1st.

Gain sharing in PERS 1 and TRS 1 occurs on even-numbered years. An extraordinary investment gain occurs when the average rate of return on assets for the previous 4-year period exceeds 10%. When this gain occurs, one-half of the gain for PERS 1 and TRS 1 is used to fund a permanent increase in the PERS 1 and TRS 1 Uniform COLA for current and future retirees.

MEMBERS IMPACTED:

The 20 cent COLA and the repeal of Plan 1 gain sharing will impact all 77,254 members of PERS 1 and all 46,677 members of TRS 1. The new eligibility requirements for the \$1,000 minimum will impact 694 PERS 1 members and 461 TRS 1 members, and indexing the \$1,000 will impact an additional 391 PERS 1 members and 338 TRS 1 members. The age 66 COLA will impact half the members in PERS 1 and TRS 1 under age 65.

TRS Plan 1	Under Age 65	Total
Receiving a Benefit	11,776	33,855
Actives	10,996	11,175
Terminated & Vested	1,619	1,647

PERS Plan 1	Under Age 65	Total
Receiving a Benefit	13,029	54,372
Actives	19,029	19,740
Terminated & Vested	3,034	3,142

For a typical member impacted by this bill, the uncertain and irregular adjustment to the Annual Increase Amount provided by gain sharing is exchanged for a definitely determinable increase. Instead of providing adjustments to the Annual Increase Amount with gain sharing, the Annual Increase Amount would be permanently increased by 20 cents. A retiree with 25 years of service would get an increase of \$5 per month.

ASSUMPTIONS:

We assumed that employer contribution rates would decrease after the proposed repeal of Plan 1 gain sharing because we started with rates that included the cost of future gain-sharing benefits. The cost impact was developed using the same logic as used for the valuation (rates were determined assuming a delayed effective date).

FISCAL IMPACT:

Description:

The decrease in contribution rates from the proposed repeal of future gain sharing is partially offset by the increase due to the proposed benefit improvements.

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

<i>(Dollars in Millions)</i>	Current	Increase	Total
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Actuarial Present Value of Projected Benefits	PERS 1	\$13,219	\$(237)	\$12,982
(The Value of the Total Commitment to all Current Members)	TRS 1	10,767	(219)	10,548
Unfunded Actuarial Accrued Liability	PERS 1	\$2,620	\$(237)	\$2,383
(The Portion of the Plan 1 Liability that is Amortized at 2024)	TRS 1	1,416	(219)	1,197
Unfunded Liability (PBO)	PERS 1	\$2,204	\$(202)	\$2,002
(The Value of the Total Commitment to all Current Members Attributable to Past Service)	TRS 1	1,121	(195)	926

Increase in Contribution Rates:	PERS 1	TRS 1
Employee	0.00%	0.00%
Employer State:		
(Effective 7/1/2005):	(0.40%)	(0.84%)
Repeal Gain Sharing		
(Effective 9/1/2005):		
\$0.20 Uniform COLA Increase	0.18%	0.37%
\$1000 Minimum Benefit Enhancement	0.01%	0.01%
Age 66 Uniform COLA Improvement	<u>0.03%</u>	<u>0.04%</u>
Total Benefit Improvements	0.22%	0.42%
Net Employer State:	(0.18%)	(0.42%)

Fiscal Budget Determinations (Repeal Gain Sharing only):

As a result of the lower required contribution rates, the decrease in funding expenditures is projected to be:

Costs (in Millions):	PERS	TRS	SERS	Total
2005-2007				
State:				
General Fund	\$(12.9)	\$(57.8)	\$(6.5)	\$(77.2)
Non-General Fund	<u>(21.2)</u>	<u>0.0</u>	<u>0.0</u>	<u>(21.2)</u>
Total State	\$(34.1)	\$(57.8)	\$(6.5)	\$(98.4)
Local Government	\$(30.3)	\$(11.8)	\$(5.7)	\$(47.8)
Total Employer	\$(64.4)	\$(69.6)	\$(12.2)	\$(146.2)
 Total Employee	 \$0.0	 \$0.0	 \$0.0	 \$0.0
2007-2009				
State:				
General Fund	\$(14.4)	\$(64.3)	\$(7.2)	\$(85.9)
Non-General Fund	<u>(23.8)</u>	<u>0.0</u>	<u>0.0</u>	<u>(23.8)</u>
Total State	\$(38.2)	\$(64.3)	\$(7.2)	\$(109.7)
Local Government	\$(33.9)	\$(13.2)	\$(6.4)	\$(53.5)
Total Employer	\$(72.1)	\$(77.5)	\$(13.6)	\$(163.2)
 Total Employee	 \$0.0	 \$0.0	 \$0.0	 \$0.0
2005-2030				
State:				
General Fund	\$(207.1)	\$(898.6)	\$(103.9)	\$(1,209.6)
Non-General Fund	<u>(341.8)</u>	<u>0.0</u>	<u>0.0</u>	<u>(341.8)</u>
Total State	\$(548.9)	\$(898.6)	\$(103.9)	\$(1,551.4)
Local Government	\$(486.8)	\$(184.0)	\$(92.1)	\$(762.9)
Total Employer	\$(1,035.7)	\$(1,082.6)	\$(196.0)	\$(2,314.3)
 Total Employee	 \$0.0	 \$0.0	 \$0.0	 \$0.0

Fiscal Budget Determinations (Benefit improvements only):

As a result of the higher required contribution rates, the increase in funding expenditures is projected to be:

Costs (in Millions):	PERS	TRS	SERS	Total
2005-2007				
State:				
General Fund	\$6.5	\$28.9	\$3.3	\$38.7
Non-General Fund	<u>10.7</u>	<u>0.0</u>	<u>0.0</u>	<u>10.7</u>
Total State	\$17.2	\$28.9	\$3.3	\$49.4
Local Government	\$15.3	\$5.9	\$2.9	\$24.1
Total Employer	\$32.5	\$34.8	\$6.2	\$73.5
 Total Employee	 \$0.0	 \$0.0	 \$0.0	 \$0.0
2007-2009				
State:				
General Fund	\$7.9	\$32.2	\$4.0	\$44.1
Non-General Fund	<u>13.1</u>	<u>0.0</u>	<u>0.0</u>	<u>13.1</u>
Total State	\$21.0	\$32.2	\$4.0	\$57.2
Local Government	\$18.6	\$6.6	\$3.5	\$28.7
Total Employer	\$39.6	\$38.8	\$7.5	\$85.9
 Total Employee	 \$0.0	 \$0.0	 \$0.0	 \$0.0
2005-2030				
State:				
General Fund	\$113.3	\$449.2	\$56.9	\$619.4
Non-General Fund	<u>187.0</u>	<u>0.0</u>	<u>0.0</u>	<u>187.0</u>
Total State	\$300.3	\$449.2	\$56.9	\$806.4
Local Government	\$266.4	\$92.0	\$50.4	\$408.8
Total Employer	\$566.7	\$541.2	\$107.3	\$1,215.2
 Total Employee	 \$0.0	 \$0.0	 \$0.0	 \$0.0

Fiscal Budget Determinations (All Changes):

As a result of the lower required contribution rates, the decrease in funding expenditures is projected to be:

Costs (in Millions):	PERS	TRS	SERS	Total
2005-2007				
State:				
General Fund	\$(6.4)	\$(28.9)	\$(3.2)	\$(38.5)
Non-General Fund	<u>(10.5)</u>	<u>0.0</u>	<u>0.0</u>	<u>(10.5)</u>
Total State	\$(16.9)	\$(28.9)	\$(3.2)	\$(49.0)
Local Government	\$(15.0)	\$(5.9)	\$(2.8)	\$(23.7)
Total Employer	\$(31.9)	\$(34.8)	\$(6.0)	\$(72.7)
 Total Employee	 \$0.0	 \$0.0	 \$0.0	 \$0.0
2007-2009				
State:				
General Fund	\$(6.5)	\$(32.1)	\$(3.2)	\$(41.8)
Non-General Fund	<u>(10.7)</u>	<u>0.0</u>	<u>0.0</u>	<u>(10.7)</u>
Total State	\$(17.2)	\$(32.1)	\$(3.2)	\$(52.5)
Local Government	\$(15.3)	\$(6.6)	\$(2.9)	\$(24.8)
Total Employer	\$(32.5)	\$(38.7)	\$(6.1)	\$(77.3)
 Total Employee	 \$0.0	 \$0.0	 \$0.0	 \$0.0
2005-2030				
State:				
General Fund	\$(93.8)	\$(449.4)	\$(47.0)	\$(590.2)
Non-General Fund	<u>(154.8)</u>	<u>0.0</u>	<u>0.0</u>	<u>(154.8)</u>
Total State	\$(248.6)	\$(449.4)	\$(47.0)	\$(745.0)
Local Government	\$(220.4)	\$(92.0)	\$(41.7)	\$(354.1)
Total Employer	\$(469.0)	\$(541.4)	\$(88.7)	\$(1,099.1)
 Total Employee	 \$0.0	 \$0.0	 \$0.0	 \$0.0

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2003 actuarial valuation report of the Public Employees Retirement System and the Teachers' Retirement System, except for the cost of the \$1,000 minimum benefit, which was based on data from the September 30, 2002 actuarial valuation report.
2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.
3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:
4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
5. This fiscal note is intended for use only during the 2005 Legislative Session.
6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.
7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces:

- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2 and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.